HOUSING MARKET OUTLOOK
Victoria CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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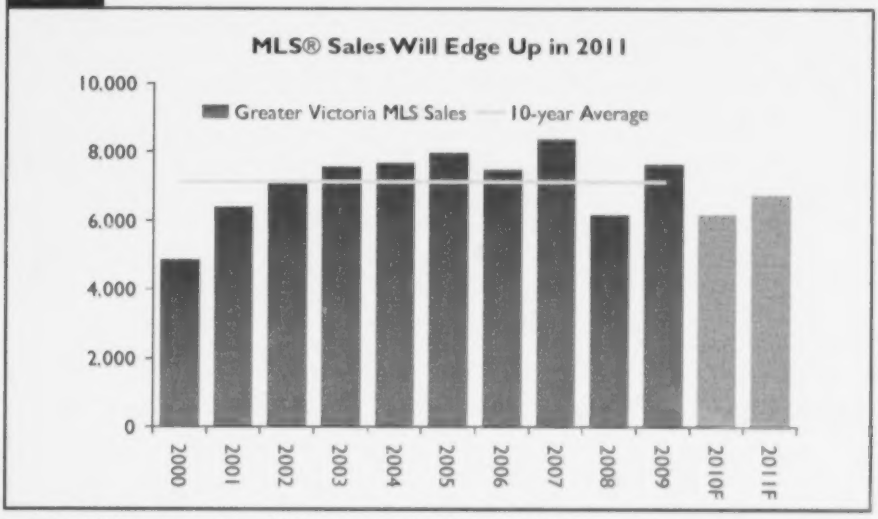
Victoria Highlights

- A modest increase in MLS® sales will take place in 2011, after declining in 2010.
- The resale market will trend towards balanced market conditions for the remainder of 2010 and into 2011.
- The annual average MLS® sales price will edge down slightly, before improving in the second part of 2011.
- After doubling in 2010, housing starts will remain slightly higher than the historical average in 2011.

Resale Market

Following a strong first quarter of 2010, the resale market has been dampened by a combination of factors: (1) the expectation of rising mortgage rates brought some sales forward into the first part of the year, (2) a rebound in resale prices, and (3) pent-up demand that was satisfied

Figure 1



Source: CMHC, adapted from MLS® data supplied by CREA. MLS® is a registered trademark of the Canadian Real Estate Association.

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in 2009 by first-time home buyers decreased the pool of would-be buyers. As a result, the anticipated annual decline in the number of existing home sales through the Multiple Listing Service® (MLS®) relative to 2009 will put the level of 2010 sales activity below the 10-year historical average for Greater Victoria.[1]

In 2011, the gradual improvement of economic conditions, both locally and provincially, will bring some stability to the resale market. Full-time job growth, stable mortgage interest rates, and a leveling off of resale prices will drive the increase in existing home sales next year. The level of MLS® transactions will increase modestly from 6,200 to 6,750.

The number of MLS® listings will edge down in response to recent declines in both the number of resale transactions and average resale prices, moving the Victoria resale market to more balanced market conditions. At present, Victoria resale market activity is consistent with buyer's market conditions, as the key barometer of resale market conditions - the sales-to-listings ratio – and average prices declined in the third quarter of 2010 relative to the second quarter.

After peaking in the second quarter of 2010 at $515,278, the average Victoria CMA MLS® sales price will decline through the remainder of 2010 in response to the recent decline in the sales-to-listings ratio. This lagged response in prices is common, as prices generally take time to adjust lower in response to changing market conditions (for example, an increased supply of homes for sale).

Figure 2

Source: CMHC, adapted from MLS® data supplied by CREA. MLS® is a registered trademark of the Canadian Real Estate Association.

Figure 3

Source: CMHC

Despite downward pressure on prices common in a buyers' market, the average 2010 resale price will be $500,000, a slight increase from the average 2009 price.

The increase projected for 2010 reflects strong market conditions, low mortgage rates, and elevated prices in the early part of the year. Since then, prices have started to edge down, but the impact of earlier activity will outweigh lower prices and lower levels of sales in the later part of the year. Prices are expected to level off at the end of 2010 and then increase

[1] Multiple Listing Services (MLS) is a registered certification mark owned by the Canadian Real Estate Association (CREA). The average number of MLS sales recorded over the last 10 years (2000-2009) was 7,131 (source: CREA).

[2] Victoria Real Estate Board (VREB), 6-month average MLS® sale price of residential single-family homes (April-September 2010).

at the pace of the general rate of inflation through 2011, resulting in an average 2011 resale price of $490,000.

Location has a pronounced impact on homes prices, as there is much variation in prices across the Victoria CMA's various municipalities. The six-month average MLS® sales price for a single-detached home ranged from $419,456 in Sooke, to $860,198 in Oak Bay.[2]

New Home Construction

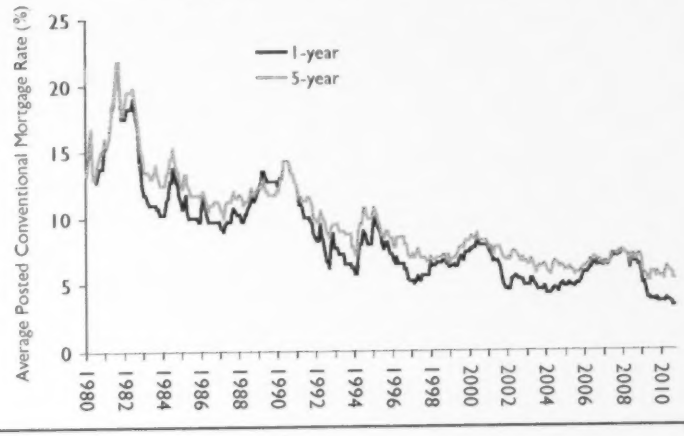
The level of Victoria Census Metropolitan Area (CMA) residential construction activity in 2010 will be twice the level recorded in 2009, which posted the lowest annual number of housing starts since 2000. Local homebuilders and developers have responded to last year's strong resale market, the on-going economic recovery, and the continued in-flow of new residents to the region.

Foundations will be poured for 2,100 new homes in 2010, and construction levels across all dwelling types (single-detached, semi-detached, row, and apartment) will surpass their ten-year average (2000-2009) level by year end.

The construction industry will remain busy, as this rebound in residential construction activity continues into 2011. Housing starts are forecast to remain stable next year at 2,000 units, as builders and developers respond to the lack of activity in 2009 and to local economic growth. Total housing starts will be slightly higher than the long-term average for the Victoria CMA (2000-2009 average: 1,817 starts), but in line with population based demand, as BC Stats' projects 1,938 new households will be formed across the region in 2011.[1]

Figure 4

Low Mortgage Rates Support Housing Demand



Source: Bank of Canada

Compositionally, next year will be similar to 2010, with 800-900 single-detached homes and 1,100-1,200 multi-family homes forecast to be built. One trend that will become more noticeable in 2011 and in the years to come, will be a shift towards the construction of more homes marketed to the increasingly price-conscious local consumer. Local homebuilders and developers will focus their product offerings more towards lower price points for both the single-detached and multi-family homes.

Economy

The stability forecast for the Victoria CMA resale and new construction markets is closely linked to the continued economic recovery that will take place across the region, province, and country. The local economy, as measured by local economic indicators, shows good prospects to grow the economy at a similar pace to the province. CMHC projects the B.C. economy, as measured by real gross domestic product (GDP), will expand by 3.3 per cent in 2010, and by a further 2.8 per cent next year.

Next year's anticipated economic growth reflects an increase in non-residential investment, above average levels of residential construction activity, job creation, and positive net migration flows.

Investment: By the end of the second quarter of 2010, there was nearly one billion dollars worth of major projects (non-residential and residential) in either the planning or construction stage across the Victoria CMA. The types of projects range from large multi-phase residential projects, to transportation infrastructure projects (eg. McTavish Road interchange and runway extension at Victoria International Airport), to the addition of new commercial space (eg. the Atrium and Gateway Green office buildings, and Uptown Shopping Centre).

[1] BC STATS, BC Ministry of Citizens' Services – P.E.O.P.L.E. Projection 34.

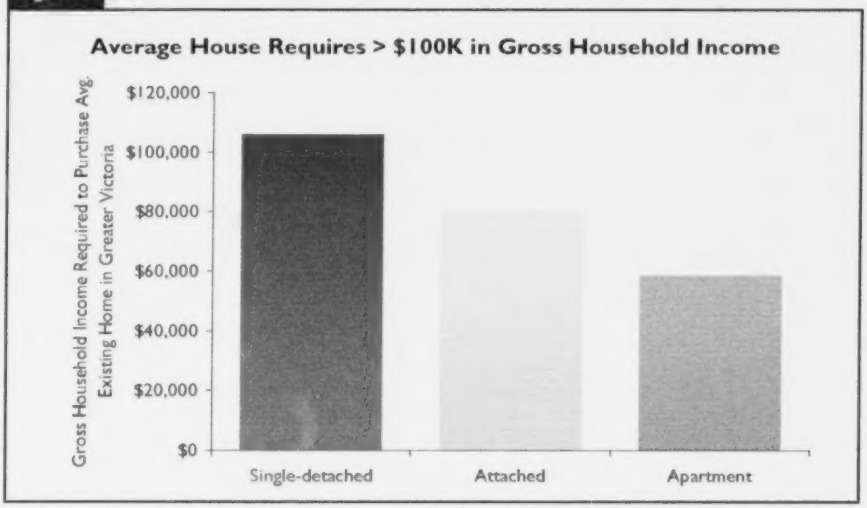
[2] BC Ministry of Small Business, Technology and Economic Development – "British Columbia Major Projects Inventory, June 2010".

Labour Market & Migration: Through the third quarter of this year, the seasonally-adjusted level of employment in the Victoria CMA remains 16,000 jobs below its peak that was recorded in May 2008. After stagnant growth in 2010, an estimated 4,000 to 5,000 jobs will be created in 2011. It is not uncommon for labour market performance to lag that of the general economy, as it takes time for businesses to build up and generate jobs.

As more jobs are created, this will continue to drive migration to the Capital region. On average, there has been net migration of roughly 4,000 people per year to the CRD.[5] This trend will continue, as net migration between 4,000 and 5,000 is projected for 2010 and 2011.

Mortgage rates: According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Figure 5



Assumes 20% down payment, 25-year amortization period, 5-year fixed posted mortgage rate (Sept. 2010), and average Q3 2010 MLS® price.
Source: CMHC, adapted from VREB and Bank of Canada.

[5] Source: Statistics Canada (Prepared by: Population Section, BC STATS, Ministry of Citizens' Services)

Forecast Summary Victoria CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	8,403	6,171	7,660	6,200	-19.1	6,750	8.9
MLS® New Listings	12,840	13,928	11,745	13,200	12.4	11,100	-15.9
MLS® Average Price ($)	466,974	484,898	476,137	500,000	5.0	490,000	-2.0
New Home Market							
Starts:							
Single-Detached	795	673	647	930	43.7	820	-11.8
Multiples	1,784	1,232	387	1,170 **		1,180	0.9
Semi-Detached	213	154	186	220	18.3	190	-13.6
Row/Townhouse	158	150	62	150	141.9	140	-6.7
Apartments	1,413	928	139	800 **		850	6.3
Starts - Total	2,579	1,905	1,034	2,100	103.1	2,000	-4.8
Average Price ($):							
Single-Detached	629,278	676,701	668,875	625,000	-6.6	610,000	-2.4
Median Price ($):							
Single-Detached	564,450	599,900	599,900	585,000	-2.5	570,000	-2.6
New Housing Price Index (% chg.)	0.5	-0.1	-7.8	-2.0	-	2.0	-
Rental Market							
October Vacancy Rate (%)	0.5	0.5	1.4	1.5	0.1	1.2	-0.3
Two-bedroom Average Rent (October) ($)	907	965	1,001	1,015	-	1,035	-
One-bedroom Average Rent (October) ($)	716	764	790	810	-	820	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.11	-	5.54	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.18	-	7.08	-
Annual Employment Level (persons)	182,900	190,900	181,400	182,000	0.3	186,000	2.2
Employment Growth (%)	4.4	4.4	-5.0	0.3	-	2.2	-
Unemployment rate (%)	3.3	3.3	6.4	6.0	-	5.5	-
Net Migration (B.C.)	58,697	65,691	61,118	57,700	-5.6	64,900	12.5

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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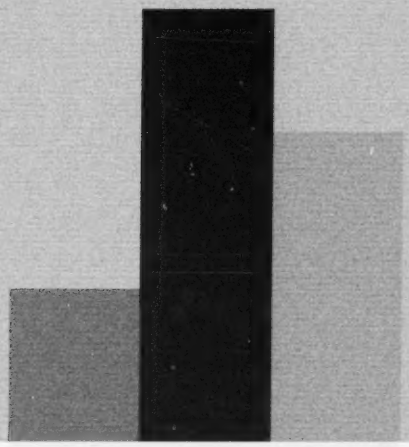

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